

**REPORT OF THE AUDIT OF THE
FLEMING COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Larry Foxworthy, Fleming County Judge/Executive
Members of the Fleming County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fleming County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fleming County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Fleming County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of Fleming County, Kentucky, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise Fleming County's legal entity. The financial statements do not include financial data for Fleming County's legally separate component units, which accounting principles generally accepted in the United States of America, as they relate to the modified cash basis of accounting, require to be reported with the financial data for Fleming County's primary government. As a result, the primary government's financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Fleming County, Kentucky, as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Larry Foxworthy, Fleming County Judge/Executive

Members of the Fleming County Fiscal Court

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of Fleming County, Kentucky, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2007 on our consideration of Fleming County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Fleming County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

February 15, 2007

FLEMING COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Larry Foxworthy	County Judge/Executive
Ray Money	Magistrate
Roger Jolly	Magistrate
Larry Dearing	Magistrate
Steve Call	Magistrate
Kenneth Sowder	Magistrate
Chris Hickerson	Magistrate

Other Elected Officials:

John Price	County Attorney
Gary Conley	Jailer
Marilyn Spencer	County Clerk
Pam Lowe	Circuit Court Clerk
Jerry Wagner	Sheriff
Connie Crane	Property Valuation Administrator
Joe Denton	Coroner

Appointed Personnel:

Kathryn Dryden	County Treasurer
Kelly Johnson	Finance Officer

FLEMING COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

FLEMING COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	<u>Primary</u> <u>Governmental</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,700,327
Total Current Assets	1,700,327
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	677,340
Construction In Progress	8,500
Buildings	234,564
Other Equipment	682,634
Vehicles and Equipment	190,915
Infrastructure Assets - Net of Depreciation	871,862
Total Noncurrent Assets	2,665,815
Total Assets	4,366,142
LIABILITIES	
Current Liabilities:	
Financing Obligations	28,796
Noncurrent Liabilities:	
Financing Obligations	45,458
Total Liabilities	74,254
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,591,561
Unrestricted	1,700,327
Total Net Assets	\$ 4,291,888

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

FLEMING COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,453,458	\$ 2,723	\$ 437,145	\$ 244,393
Protection to Persons and Property	615,721	31,703	162,547	
General Health and Sanitation	169,017	100		
Social Services	12,812			
Recreation and Culture	215,468			310,492
Roads	782,000		1,210,812	502,397
Road Facilities	5,000			
Debt Service	39,380			
Capital Projects	406,089			
Total Governmental Activities	\$ 3,698,945	\$ 34,526	\$ 1,810,504	\$ 1,057,282

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	(769,197)
	(421,471)
	(168,917)
	(12,812)
	95,024
	931,209
	(5,000)
	(39,380)
	(406,089)
	<u>(796,633)</u>

General Revenues:

Taxes:

Real Property Taxes	589,929
Personal Property Taxes	48,763
Motor Vehicle Taxes	118,418
Other Taxes	175,329
Cable TV Franchise Fees	15,229
Excess Fees	125,442
E-911 Fees	265,797
Unrestricted Investment Earnings	98,141
Miscellaneous Revenues	<u>676,631</u>

Total General Revenues	<u>2,113,679</u>
Change in Net Assets	<u>1,317,046</u>
Net Asset - Beginning	<u>2,974,842</u>
Net Asset - Ending	<u>\$ 4,291,888</u>

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

; June 30, 2006

FLEMING COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	LGEA Fund	Revolving Loan Fund	Dispatch Fund
ASSETS					
Cash and Cash Equivalents	\$ 387,000	\$ 79,227	\$ 107,454	\$ 415,539	\$ 227,342
Total Assets	<u>\$ 387,000</u>	<u>\$ 79,227</u>	<u>\$ 107,454</u>	<u>\$ 415,539</u>	<u>\$ 227,342</u>
FUND BALANCES					
Restricted for:					
Capital Projects	\$	\$ 60,458	\$	\$	\$
Reserved for:					
Encumbrances	292	6,229			
Unreserved:					
General Fund	386,708				
Special Revenue Funds		12,540	107,454	415,539	227,342
Total Fund Balances	<u>\$ 387,000</u>	<u>\$ 79,227</u>	<u>\$ 107,454</u>	<u>\$ 415,539</u>	<u>\$ 227,342</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 1,700,327
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital Assets of \$4,135,983 Net of Accumulated Depreciation of \$1,470,168 Used in Governmental Activities are not Financial Resources and Therefore are not Reported in the Funds.	2,665,815
Long-term Debt is not Due and Payable in the Current Period and, Therefore, is not Reported in the Funds.	
Financing Obligations	<u>(74,254)</u>
Net Assets of Governmental Activities	<u>\$ 4,291,888</u>

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Capital Improvement Fund	Non Major Funds	Governmental Funds
\$ 480,009	\$ 3,756	\$ 1,700,327
<u>\$ 480,009</u>	<u>\$ 3,756</u>	<u>\$ 1,700,327</u>
\$	\$	\$ 60,458
		6,521
		386,708
<u>480,009</u>	<u>3,756</u>	<u>1,246,640</u>
<u>\$ 480,009</u>	<u>\$ 3,756</u>	<u>\$ 1,700,327</u>

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

FLEMING COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	LGEA Fund	Revolving Loan Fund
REVENUES				
Taxes	\$ 932,440	\$	\$	\$
Excess Fees	125,443			
Licenses and Permits	15,229			
Intergovernmental	1,086,765	1,451,132	123,005	
Charges for Services	100			
Miscellaneous	338,080	22,640		284,473
Interest	48,259	16,766	3,040	9,244
Total Revenues	<u>2,546,316</u>	<u>1,490,538</u>	<u>126,045</u>	<u>293,717</u>
EXPENDITURES				
General Government	651,859			669
Protection to Persons and Property	168,284	14,756		
General Health and Sanitation	157,432	11,297		
Social Services	12,812			
Recreation and Culture	549,782			
Roads		1,078,211		
Road Facilities				5,000
Debt Service	53,396	120,810	12,715	
Capital Projects		406,089		
Administration	688,745	157,665		
Total Expenditures	<u>2,282,310</u>	<u>1,788,828</u>	<u>12,715</u>	<u>5,669</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	264,006	(298,290)	113,330	288,048
Other Financing Sources (Uses)				
Lease Proceeds		60,458		
Transfers from Other Funds		270,000		4,625
Transfers to Other Funds	(261,175)		(185,000)	
Total Other Financing Sources (Uses)	<u>(261,175)</u>	<u>330,458</u>	<u>(185,000)</u>	<u>4,625</u>
Net Change in Fund Balances	2,831	32,168	(71,670)	292,673
Fund Balances - Beginning	384,169	47,059	179,124	122,866
Fund Balances - Ending	<u>\$ 387,000</u>	<u>\$ 79,227</u>	<u>\$ 107,454</u>	<u>\$ 415,539</u>

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Dispatch Fund	Capital Improvement Fund	Non- Major Funds	Total Governmental Funds
\$ 265,797	\$	\$ 1,673	\$ 1,199,910
			125,443
			15,229
91,113	72,000	74,068	2,898,083
		29,069	29,169
768	4,050		650,011
4,694	16,140		98,143
<u>362,372</u>	<u>92,190</u>	<u>104,810</u>	<u>5,015,988</u>
			652,528
215,812		236,087	634,939
			168,729
			12,812
			549,782
			1,078,211
	70,000		75,000
			186,921
			406,089
<u>36,677</u>		<u>11,628</u>	<u>894,715</u>
<u>252,489</u>	<u>70,000</u>	<u>247,715</u>	<u>4,659,726</u>
109,883	22,190	(142,905)	356,262
			60,458
30,000	50,000	141,550	496,175
<u>(50,000)</u>			<u>(496,175)</u>
<u>(20,000)</u>	<u>50,000</u>	<u>141,550</u>	<u>60,458</u>
89,883	72,190	(1,355)	416,720
137,459	407,819	5,111	1,283,607
<u>\$ 227,342</u>	<u>\$ 480,009</u>	<u>\$ 3,756</u>	<u>\$ 1,700,327</u>

The accompanying notes are an integral part of the financial statements.

**FLEMING COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

FLEMING COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 416,720
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	1,065,284
Depreciation Expense	(222,118)
Net Book Value of Disposed Assets	(29,923)

Financing Obligation and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources.

However, These Transactions Have no Effect on Net Assets.

Financing Obligation Principal Payments	147,541
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The Issuance of Long-Term Debt Provides Current Financial Resources to Governmental Funds. These Transactions, However, Have no Effect on Net Assets:

Lease Proceeds	<u>(60,458)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 1,317,046</u>
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FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Fleming County should include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. The reporting entity previously included these organizations that are legally separate from the primary government.

Public Properties Corporation

The Public Properties Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Public Properties Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Public Properties Corporation as a component unit and the financial information should be blended with that of the fiscal court. However, since there was no financial activity for the Public Properties Corporation, financial statement disclosure has been excluded.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Fleming County Hospital District

Fleming County Hospital District (District) is a legally separate entity established to operate as the Fleming County Hospital. The Fleming County Fiscal Court appoints all of the District's directors. Management should include the District as a discretely presented component unit, but has elected to exclude the District from presentation in the County's financial statements. However, separate audited financial statements can be obtained by contacting:

Ron Harrington
Fleming County Hospital
920 Elizaville Avenue
Flemingsburg, Kentucky 41041

C. Fleming County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Fleming County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Fleming County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The county does not have business-type activities or fiduciary funds.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivable, accounts payable, compensated absences, and donated assets are not reflected in the financial statement.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Revolving Loan Fund - The purpose of this fund is to account for funds received from reimbursements of a Community Development Block Grant used for low interest loans to qualifying businesses.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Dispatch Fund – The purpose of this fund is to account for funds associated with providing emergency response services to Fleming County.

Capital Improvements Fund – The purpose of this fund is to account for capital projects relating to building maintenance.

The primary government also has the following non-major funds: Jail Fund and Forestry Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, Revolving Loan Fund, Dispatch Fund, and Capital Improvement Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Property Tax Calendar

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale April 30 following the delinquency date.

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. However, the county has elected not to report major general infrastructure assets retroactively.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

H. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fund Equity (Continued)

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 262,600	\$ 414,740	\$	\$ 677,340
Construction In Progress	8,500			8,500
Total Capital Assets Not Being Depreciated	271,100	414,740		685,840
Capital Assets, Being Depreciated:				
Buildings	878,500			878,500
Other Equipment	984,066	186,150		1,170,216
Vehicles and Equipment	382,052	6,200	(68,736)	319,516
Infrastructure	623,717	458,194		1,081,911
Total Capital Assets Being Depreciated	2,868,335	650,544	(68,736)	3,450,143
Less Accumulated Depreciation For:				
Buildings	(628,630)	(15,306)		(643,936)
Other Equipment	(401,714)	(85,868)		(487,582)
Vehicles and Equipment	(151,074)	(16,340)	38,813	(128,601)
Infrastructure	(105,445)	(104,604)		(210,049)
Total Accumulated Depreciation	(1,286,863)	(222,118)	38,813	(1,470,168)
Total Capital Assets, Being Depreciated, Net	1,581,472	428,426	(29,923)	1,979,975
Governmental Activities Capital Assets, Net	\$ 1,852,572	\$ 843,166	\$ (29,923)	\$ 2,665,815

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 18,754
Protection to Persons and Property	51,292
General Health and Sanitation	288
Recreation and Culture	10,426
Roads, Including Depreciation of General Infrastructure Assets	141,358
Total Depreciation Expense - Governmental Activities	<u>\$ 222,118</u>

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Short-term Debt

In July 2005, Fleming County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$2,228,600, with principal being due in January 2006 with an interest rate of 3.032 percent. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$40,989.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Kentucky Advance Revenue Program	\$ 0	\$ 2,228,600	\$ 2,228,600	\$ 0	\$ 0
Governmental Activities Short-term Liabilities	\$ 0	\$ 2,228,600	\$ 2,228,600	\$ 0	\$ 0

Note 5. Financing Obligations

A. Capital Lease – Ambulance And Life Saving Equipment

On August 28, 2001, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of an ambulance and life saving equipment. The agreement requires variable monthly payments for 60 months with an interest rate of 4 percent to be paid in full August 28, 2007. The principal balance of the agreement was \$1,372 as of June 30, 2006. Lease payments for the remaining year are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 1,372	\$ 10

B. Capital Lease – Dump Truck

On November 8, 2002, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of a dump truck. The agreement requires variable monthly payments for 60 months with an interest rate of 2.55 percent to be paid in full January 20, 2007. The principal balance of the agreement was \$12,424 as of June 30, 2006. Lease payments for the remaining year is:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 12,424	\$ 185

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Financing Obligations (Continued)

C. Capital Lease - Vehicle And Road Equipment

On June 28, 2006, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of a dump truck. The agreement requires monthly interest payments beginning August 20, 2006 and principle payments annually beginning January 20, 2007 with an interest rate of 4.05 percent to be paid in full January 20, 2010. The principal balance of the agreement was \$60,458 as of June 30, 2006. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 15,000	\$ 2,575
2008	15,000	2,014
2009	15,000	1,379
2010	15,458	560
Totals	\$ 60,458	\$ 6,528

Financing obligation activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 161,337	\$ 60,458	\$ 147,541	\$ 74,254	\$ 28,796
Governmental Activities					
Long-term Liabilities	\$ 161,337	\$ 60,458	\$ 147,541	\$ 74,254	\$ 28,796

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$1,862 in interest on financing obligations.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On February 24, 2000, the Fleming County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2006, Fleming County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Subsequent Review

A. The Fleming County Fiscal Court loaned the Fleming County Industrial Authority \$200,000 on July 18, 2006. The loan is required to be paid back over a ten year period at a 6% interest rate.

B. On October 17, 2006 the Fleming County Fiscal Court entered into a lease agreement to purchase a Mac Tri-Axle dump truck for a period of twelve months with a guaranteed buy back of ninety-one percent.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 11. Construction In Progress

Construction In Progress consisted of the following project as of June 30, 2006:

Courthouse Renovation Project	\$ 8,500
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FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 868,515	\$ 868,515	\$ 932,440	\$ 63,925
Excess Fees	100,000	100,000	125,443	25,443
Licenses and Permits	9,000	9,000	15,229	6,229
Intergovernmental	1,512,847	1,730,437	1,086,765	(643,672)
Charges for Services	100	100	100	
Miscellaneous	411,450	491,451	338,080	(153,371)
Interest	31,000	46,000	48,259	2,259
Total Revenues	2,932,912	3,245,503	2,546,316	(699,187)
EXPENDITURES				
General Government	649,463	669,918	651,859	18,059
Protection to Persons and Property	597,419	517,227	168,284	348,943
General Health and Sanitation	41,857	163,368	157,432	5,936
Social Services	20,250	18,775	12,812	5,963
Recreation and Culture	856,000	957,636	549,782	407,854
Debt Service	1,684,089	1,695,689	1,661,196	34,493
Administration	647,739	820,964	688,745	132,219
Total Expenditures	4,496,817	4,843,577	3,890,110	953,467
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,563,905)	(1,598,074)	(1,343,794)	254,280
OTHER FINANCING SOURCES (USES)				
Kentucky Advanced Revenue Program Proceeds	1,640,400	1,640,400	1,607,800	(32,600)
Transfers To Other Funds	(426,495)	(426,495)	(261,175)	165,320
Total Other Financing Sources (Uses)	1,213,905	1,213,905	1,346,625	132,720
Net Changes in Fund Balance	(350,000)	(384,169)	2,831	387,000
Fund Balance - Beginning	350,000	384,169	384,169	
Fund Balance - Ending	\$	\$	\$ 387,000	\$ 387,000

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,392,316	\$ 1,461,625	\$ 1,451,132	\$ (10,493)
Miscellaneous	9,000	9,000	22,640	13,640
Interest	6,700	18,200	16,766	(1,434)
Total Revenues	<u>1,408,016</u>	<u>1,488,825</u>	<u>1,490,538</u>	<u>1,713</u>
EXPENDITURES				
Protection to Persons and Property	10,000	14,756	14,756	
General Health And Sanitation	34,740	29,883	11,297	18,586
Roads	1,010,366	1,148,045	1,078,211	69,834
Debt Service	359,500	742,400	741,610	790
Capital Projects	403,045	406,089	406,089	
Administration	200,285	174,132	157,665	16,467
Total Expenditures	<u>2,017,936</u>	<u>2,515,305</u>	<u>2,409,628</u>	<u>105,677</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(609,920)	(1,026,480)	(919,090)	107,390
OTHER FINANCING SOURCES (USES)				
Kentucky Advanced Revenue Program Proceeds	246,300	620,800	620,800	
Transfers From Other Funds	396,900	396,900	270,000	(126,900)
Total Other Financing Sources (Uses)	<u>643,200</u>	<u>1,017,700</u>	<u>890,800</u>	<u>(126,900)</u>
Net Changes in Fund Balance	33,280	(8,780)	(28,290)	(19,510)
Fund Balance - Beginning	<u>5,000</u>	<u>47,060</u>	<u>47,059</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 38,280</u>	<u>\$ 38,280</u>	<u>\$ 18,769</u>	<u>\$ (19,511)</u>

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	LGEA FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 90,907	\$ 90,907	123,005	\$ 32,098
Miscellaneous	50	50		(50)
Interest	2,500	2,500	3,040	540
Total Revenues	93,457	93,457	126,045	32,588
EXPENDITURES				
Roads	53,000	53,000		53,000
Debt Service	12,666	12,750	12,715	35
Administration	12,791	21,832		21,832
Total Expenditures	78,457	87,582	12,715	74,867
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	15,000	5,875	113,330	107,455
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(185,000)	(185,000)	(185,000)	
Total Other Financing Sources (Uses)	(185,000)	(185,000)	(185,000)	
Net Changes in Fund Balance	(170,000)	(179,125)	(71,670)	107,455
Fund Balance - Beginning	170,000	179,125	179,124	(1)
Fund Balance - Ending	\$	\$	\$ 107,454	\$ 107,454

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 500,000	\$ 500,000		\$ (500,000)
Miscellaneous	50	284,523	284,473	(50)
Interest	1,075	1,075	9,244	8,169
Total Revenues	501,125	785,598	293,717	(491,881)
EXPENDITURES				
General Government	550,000	550,000	669	549,331
Road Facilities	5,000	5,000	5,000	
Administration	76,125	360,598		360,598
Total Expenditures	631,125	915,598	5,669	909,929
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(130,000)	(130,000)	288,048	418,048
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			4,625	4,625
Net Changes in Fund Balance	(130,000)	(130,000)	292,673	422,673
Fund Balance - Beginning	130,000	130,000	122,866	(7,134)
Fund Balance - Ending	\$	\$	\$ 415,539	\$ 415,539

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	DISPATCH FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 265,000	\$ 265,000	\$ 265,797	\$ 797
Intergovernmental	70,000	70,000	91,113	21,113
Miscellaneous	1,000	1,000	768	(232)
Interest	1,200	1,200	4,694	3,494
Total Revenues	337,200	337,200	362,372	25,172
EXPENDITURES				
Protection to Persons and Property	254,658	258,158	215,812	42,346
Administration	232,542	246,503	36,677	209,826
Total Expenditures	487,200	504,661	252,489	252,172
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(150,000)	(167,461)	109,883	277,344
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	30,000	30,000	30,000	
Transfers To Other Funds			(50,000)	(50,000)
Total Other Financing Sources (Uses)	30,000	30,000	(20,000)	(50,000)
Net Changes in Fund Balance	(120,000)	(137,461)	89,883	227,344
Fund Balance - Beginning	120,000	137,461	137,459	(2)
Fund Balance - Ending	\$ 0	\$ 0	\$ 227,342	\$ 227,342

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

CAPITAL IMPROVEMENTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 259,000	\$ 259,000	\$ 72,000	\$ (187,000)
Miscellaneous			4,050	4,050
Interest	4,575	4,575	16,140	11,565
Total Revenues	263,575	263,575	92,190	(171,385)
EXPENDITURES				
General Government	102,000	102,000		102,000
Road Facilities	259,000	259,000	70,000	189,000
Administration	307,575	310,395		310,395
Total Expenditures	668,575	671,395	70,000	601,395
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(405,000)	(407,820)	22,190	430,010
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			50,000	50,000
Total Other Financing Sources (Uses)			50,000	50,000
Net Changes in Fund Balance	(405,000)	(407,820)	72,190	480,010
Fund Balance - Beginning	405,000	407,820	407,819	(1)
Fund Balance - Ending	\$ 0	\$ 0	\$ 480,009	\$ 480,009

FLEMING COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation

	<u>Other Financing Sources (Uses)</u>	<u>Expenditures</u>
General Fund		
Budgetary Comparison Schedule	\$ 1,346,625	\$ 3,890,110
KY Advanced Revenue Program Receipts	(1,607,800)	
Kentucky Advanced Revenue Program Principal Payments		(1,607,800)
Statement of Revenues, Expenditures, And Changes in Fund Balance -- Modified Cash Basis	<u>\$ (261,175)</u>	<u>\$ 2,282,310</u>
 Road Fund		
Budgetary Comparison Schedule	\$ 890,800	\$ 2,409,628
KY Advanced Revenue Program Receipts	(620,800)	
Kentucky Advanced Revenue Program Principal Payments		(620,800)
Statement of Revenues, Expenditures, And Changes in Fund Balance -- Modified Cash Basis	<u>\$ 270,000</u>	<u>\$ 1,788,828</u>

**FLEMING COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

FLEMING COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Jail Fund	Forestry Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 3,365	\$ 391	\$ 3,756
Total Assets	<u>\$ 3,365</u>	<u>\$ 391</u>	<u>\$ 3,756</u>
 FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$ 3,365	\$ 391	\$ 3,756
Total Fund Balances	<u>\$ 3,365</u>	<u>\$ 391</u>	<u>\$ 3,756</u>

FLEMING COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

FLEMING COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Jail Fund	Forestry Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$	\$ 1,673	\$ 1,673
Intergovernmental	74,068		74,068
Charges For Services	29,057	12	29,069
Total Revenues	<u>103,125</u>	<u>1,685</u>	<u>104,810</u>
EXPENDITURES			
Protection to Persons and Property	234,447	1,640	236,087
Administration	11,628		11,628
Total Expenditures	<u>246,075</u>	<u>1,640</u>	<u>247,715</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(142,950)	45	(142,905)
Other Financing Sources (Uses)			
Transfers From Other Funds	141,550		141,550
Total Other Financing Sources (Uses)	<u>141,550</u>		<u>141,550</u>
Net Change in Fund Balances	(1,400)	45	(1,355)
Fund Balances - Beginning	4,765	346	5,111
Fund Balances - Ending	<u>\$ 3,365</u>	<u>\$ 391</u>	<u>\$ 3,756</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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Brenda K. Morgan, CPA
Jody B. Franklin, CPA

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The Honorable Larry Foxworthy, Fleming County Judge/Executive
Members of the Fleming County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the primary government of Fleming County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 15, 2007. Fleming County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fleming County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Fleming County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

February 15, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

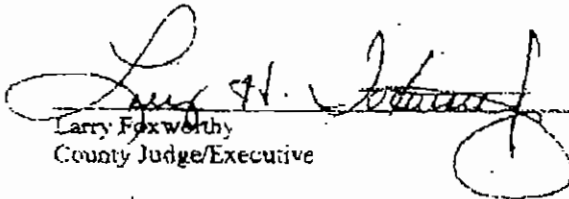
FLEMING COUNTY FISCAL COURT

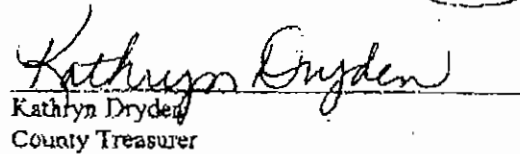
**For The Year Ended
June 30, 2006**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
FLEMING COUNTY FISCAL COURT

For The Year Ended June 30, 2006

The Fleming County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Larry Foxworthy
County Judge/Executive


Kathryn Dryden
County Treasurer